Tata Chemicals Limited Q4 and FY 2015 earnings conference call

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Moderator: Ladies and gentlemen, good day and welcome to the Tata Chemicals Limited Q4 FY 2015 Earning Conference Call, hosted by Tata Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Subham Sinha from Tata Securities Limited. Thank you and over to you Mr. Sinha!

Subham Sinha: Hello everyone. This is Subham Sinha from Tata Securities. I welcome everyone to this conference call and I thank the management of Tata Chemicals Limited for taking out their time to discuss Q4 and FY2015 numbers. We have here with us Mr. R. Mukundan, Managing Director, Mr. P. K. Ghose, Executive Director and CFO, Mr. John Mulhall, Deputy CFO and Mr. Ranjeev Lodha, VP & Group Corporate Controller. I now invite Mr. Mukundan to take over. Over to you Sir!

R. Mukundan: Thank you very much. Firstly, let me welcome my colleagues, Mr. Ghose, Mr. John Mulhall and Mr. Lodha on this call and all of you as well. We will start briefly by sharing with you some perspective on the operating performance for the quarter and the financial year ended March, 2015 and then I will invite Mr. Ghose to share key financial details after which we will respond to your queries.

Few of the highlights have been; one is the restructuring initiative at Magadi as it was completed in the first half of FY2015. During Q4 we are seeing the positive impact of that and Magadi has reported profits both at the operating and the PAT level. In respect of the restructuring initiative in UK, we had committed that the turbine steam should be installed by end of September, which seems to be on track and we are on a track for making sure that the progress remains steady there.

Another commitment we had made was to cleanup the balance sheet by examining all non-performing assets and to impair them. To that extent this quarter we have taken an impairment charge of Rs.198 Crore and this is in addition to the net charge of Rs.1420 Crore, which we took in FY2014, the previous year. Broadly with this, we have examined all our assets and have cleaned up our balance sheet.

In terms of the consumer business, the portfolio continues to grow, the overall business has grown to a size of Rs.1500 Crore and pulses has reported a turnover of close to Rs.250 Crore, which has grown at approx 50% year-on-year, we expect the same growth rate to continue going forward.

As far as fertilizer business is concerned, the positive news has been the announcement of the new urea policy, which is effective June 1. We clearly welcome this. This was something, which we were in discussion with the government. Hopefully, now production beyond cut off will be profitable for all the players and with the combined impact of profitability beyond cut off, gas pooling and shift towards producing 100% neem-coated urea the issues of the urea industry have been more or less taken care of. Albeit an issue that still remains is the issue related to the subsidy outstanding which has been one of the issues the company has been discussing with government. For Tata Chemicals, this figure is about Rs.1970 Crore. Our normal subsidy outstanding should be about Rs.600 Crore, hence on that account an additional interest charge that we have been incurring because of delayed subsidy in fertilizers is anywhere between Rs.75 and Rs.90 Crore.

The production in terms of both nitrogenous and complex fertilizers have been fairly impressive. However, the financial performance as I said has been subdued due to lower realization and the lack of policy clarity which has taken a long time. As well as the outstanding subsidy which continues to impact working capital and associated interest which I spoke about few minutes ago.

In terms of the inorganic chemicals segment the soda ash business, where the market remains pretty tight and we are fully sold out across our units; second the consumer business continues to clock a good growth rate and the market share in salt continues to be at 67%. In addition to pulses, we had launched Tata I-Shakti spices in Punjab. Our market share is close to 5% there and it has been a fairly impressive start for the newcomer to come on the block and notch up a market share of 5% in a couple of months. We are planning to extend this in the North of India starting with Haryana and Himachal Pradesh. The Company also launched Tata Salt Plus Double Fortified Salt, which is fortified with iron and iodine and is aimed towards addressing the issue of anemia in Indian consumers especially 50% of Indian women today who suffer from anemia.

In addition to that, we have also launched Tata Salt Crystal. This product is for traditional buyers who use this mainly for making pickles.

In terms of the fertilizer business, we have reported a significant drop in performance due to reduction in IPP and high gas price for urea and lack of policy for higher quantities beyond cut off that has been addressed, going forward, in the new Urea Policy. We also had higher input cost, which has impacted margins of complex fertilizers manufactured in Haldia; however, IMACID has shown improved performance and against a loss, in Q4 of FY2014, this year it has shown positive profits. Performance in Rallis, of course was impacted partly due to the unseasonal weather, but overall the better performance of Metahelix has contributed to overall stability of Rallis and the new launches, which Rallis has made, would continue to give it a growth momentum.

Finally, going forward, our focus continues to be on non-subsidized agri and consumer facing portfolio. So, overall I would say that we have spent the last quarter cleaning up our balance sheet making sure that Magadi's turnaround was on track, the UK turnaround progressed as per plan and also working hard to make sure the policy issues with respect to fertilizer are cleared and all these should leave us in a better position going forward next year. With this, I request Mr. Ghose to give insight in the financial performance of the company.

P. K. Ghose: Thanks Mukund. A quick recap on the fourth quarter and the financial year ended March 31, 2015. On a consolidated basis, net income for the quarter stood at Rs.3743 Crore up 1%. It may be noted that the increase in revenue is after considering the discontinuation of soda ash capacities in UK and Magadi. Profit from operations was at Rs.411 Crore as compared to Rs.322 Crore for the corresponding quarter in the previous year that is an increase of 28%. Improved performance of Magadi and Mithapur has contributed to the improved profit from operations. As mentioned earlier, we have accounted for exceptional items on account of impairment and contractual losses aggregating to Rs.198 Crore during Q4 as compared to Rs.1304 Crore in Q4 FY2014. Considering the exceptional charge, the loss after tax and adjusting for share of minority is Rs.74 Crore as compared to a loss of Rs.1226 Crore in Q4 FY2014.

For the year ended March 2015, the consolidated net income for the year stood at Rs.17203 Crore up 8% despite lower revenues from UK and Magadi for the reasons mentioned earlier. Profit from operations was at Rs.2157 Crore as compared to Rs.1810 Crore for the previous year, an increase of 19%. Profit after tax after adjusting for minority interest is Rs.596 Crore as compared to a loss of Rs.1032 Crore in the previous financial year.

On a standalone basis, the net income for the quarter was Rs.2113 Crore as compared to Rs.2003 Crore in Q4 of FY2014, Profit from operations was at Rs.163 Crore as compared to Rs.167 Crore in Q4 of FY2014. The operating profit was impacted due to lower margins for urea and higher input cost for complex fertilizers. Profit before tax was Rs.92 Crore and after considering tax provision, the net profit after tax was Rs.55 Crore as compared to Rs.81 Crore in the corresponding quarter last year.

For the financial year ended March 2015 on a standalone basis, the net income for the period was Rs.10082 Crore up by 16%. Profit from operations was Rs.1039 Crore as compared to Rs.928 Cores in FY2014, an increase of 12%. Profit before tax was Rs.854

Crore and after considering the tax provision, the net profit after tax was Rs.638 Crore as compared to Rs.436 Crore for the previous financial year an increase of 46%.

On a standalone basis, the company's net debt as on March 31, 2015 stood at Rs.2141 Crore as against Rs.2058 Crore on March 31, 2014. The increase in debt levels are primarily on account of delayed subsidy payment. On a consolidated basis, the net debt stood at Rs.6909 Crore as against Rs.6633 Crore on March 31, 2014. The consolidated net debt is after taking into account an amount of Rs.69 Crore on account of currency translation in respect of debt in our overseas project. The increase in net debt is mainly due to increase a working capital borrowing and the additional debt to fund the restructuring at Magadi during the first half of FY2015.

The company holds cash and cash equivalent balance of Rs.1464 Crore on a consolidated basis as on March 31, 2015. As on March 31 as was mentioned earlier, the subsidy outstanding stood at Rs.1972 Crore and has increased as compared to Rs.1800 Crore as on March 31, 2014 and as Mr. Mukundan mentioned, I think while the government has addressed most of the issues in the new urea policy, I think this one remains substantially outstanding because it has got a huge impact, not only for Tata Chemicals, but the entire industry and is impacting its bottomline.

So to summarize the improved performance of the domestic soda ash and salt businesses, encouraging performance at Magadi and IMACID, improved volumes of the pulses portfolio and lower extraordinary items as compared to the previous year have contributed to the improved performance. One important milestone is that our consumer facing product portfolio has crossed Rs.1500 Crore, in terms of turnover, during this year.

This brings me to the end of this discussion. May I now throw this open to the floor for any questions.~~!~~

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Prakash Goel from ICICI Securities. Please go ahead.

Prakash Goel: Thank you for the opportunity Sir. I would like to know what has been the reason for the lower volume at TCNA and the losses?

R. Mukundan: The production volumes have been lower. There is no loss in TCNA. There is an impairment charge, which was accounted for in TCNA, resulting in lower profits this quarter and that has been the real issue on the ground.

Prakash Goel: This pertains to which part of the business because what is written on the notes to accounts is the biofuels and chemicals, so did you have any operations of biofuel in TCNA?

P. K. Ghose: This is in respect of an air purification project where the government was expected to come out with some regulations and those regulations actually did not come to materialize and therefore we have taken a charge of about Rs.120 Crore odd in the TCNA's account.

Prakash Goel: What has been the reason for lower volume at TCNA?

R. Mukundan: Mainly this is because of boiler reliability issues because of extreme weather conditions we faced in the last quarter, but otherwise it is now fairing well.

Prakash Goel: There is no issue of demand per se it was production related issue?

R. Mukundan: We have fully sold out. In fact we had to buy material to feed the market because of lost production. During the year we had to source about 60000 or 70000 tonnes to feed the market.

Prakash Goel: How to look at the minority share in your consolidated books of accounts, if you are reporting this particular air pollution related stuff, would that also be charged to the minority, because I am seeing a positive number of Rs.25 Crore in the consolidated P&L?

R. Mukundan: Let me explain the exceptional charge, which is Rs.197 Crore. The charge which we have taken on Natronx is Rs122 crore and represents our ownership percentage of the entity and the charge in JOil is our ownership percentage and the balance is the charge in GEZ.

Prakash Goel: So that explains the case. Thank you and how is the scenario going forward on the pricing front since you have concluded the contract, pricing front on the soda ash and TCNA?

R. Mukundan: The prices are all done, and the demand remains fairly robust. We see no issues going forward. So, we have fully sold out as I said our contracts are done, so we expect the current trend to continue.

Prakash Goel: The current operating margin trend?

R. Mukundan: The current margin trend to continue.

Prakash Goel: The second question is with regard to what will be the average cost of debt and I actually missed out the net debt number? What is the total net debt? I actually missed out the number and what is the average debt cost?

R. Mukundan: Net debt is about Rs.6909 Crore.

Prakash Goel: Last year?

R. Mukundan: Last year was Rs.6633 Crore.

Prakash Goel: What is the average debt cost Sir?

R. Mukundan: The cost of debt on an overall basis would be in the range of about 7%

Prakash Goel: That is all from my side and I will come back in the queue if I have more questions. Thanks a lot and all the best for future quarter.

Moderator: Thank you. The next question is from the line of Abhijit Dey from BNP Paribas Mutual Fund. Please go ahead.

Abhijit Dey: Just to clarify what you have mentioned just now, Rs.120 Crore of impairment loss is related to TCNA, right?

R. Mukundan: TCNA investment in Natronx?

Abhijit Dey: Where have you shown that Sir?

R. Mukundan: In exceptional line item 8, which is Rs.197 Crore, 122 is on Natronx, the balance two is on JOil and GEZ.

Abhijit Dey: My question was actually if you see the previous three or four quarters, inorganic chemical division has shown the least PBIT margin of 11.5% this quarter compared to 19% in Q3 and 17% in Q2, any reason for that Sir?

R. Mukundan: Mainly you have to add back Rs.122 Crore to 238 Crore, so you will reach the figure of Rs.350 Crore odd, I think that is one big issue there.

Abhijit Dey: So you have to add back that number and Sir in terms of fertilizer division performance you said because the IPP policy was not finalized, you had a lower profitability in the urea business, is that right?

R. Mukundan: That is right. I think the production above cut off was unremunerative.

Abhijit Dey: But you sold more volumes, if I look at your presentation?

R. Mukundan: We produced 100%, we had the best of our production ever, but also the worst ever financial performance.

Abhijit Dey: Right Sir. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Balwinder Singh from B&K Securities. Please go ahead.

Balwinder Singh: Sir, thanks for taking my question. Firstly, if I see the consolidated segmental results for the quarter, then there is Rs.90 Crore loss that has been shown under others. So in consolidated segmental results, what is that related to, because otherwise our quarterly run rate is kind of Rs.30 Crore?

P. K. Ghose: That is on a full year basis and that comprises of all the other new businesses that we have got which is basically water purifiers, pulses and GEZ biofuels.

Balwinder Singh: Overall, what kind of run rate can we expect in that say whole of FY2016?

P. K. Ghose: We cannot give you future projection.

Balwinder Singh: Regarding this UK and Kenya, how are they performing and you have earlier given a number of $15 million in Kenya and UK around 25 million pounds on a sustainable annual basis at EBITDA level, so how are you placed for that?

P. K. Ghose: I think Kenya in this financial year should be moving towards the target. We may have a deviation of a million dollar here or there. As we always maintained the UK will start giving that result only from the second half of the year after the steam turbine is installed. We will not have that for the first year, half year at all.

R. Mukundan: So this 25, which you are mentioning, is a full year of running which is the next full financial year.

Balwinder Singh: FY2017.

R. Mukundan: That is right.

Balwinder Singh: Are we on track for that?

R. Mukundan: We are on track to implement the steam turbine by September and you would see the impact of that in the second half of the year.

Balwinder Singh: Okay and lastly on the consumer side given that this year it has done around Rs.1500 Crore with pulses doing Rs.250 Crore, so if you can throw some light more on the pulses, what kind of distribution reach have we ended the year with and what kind of growth do you expect in the consumer business say more from a medium term three year perspective?

R. Mukundan: In terms of the retail outlet reach we had targeted about a lakh outlets, we are very close to that, I think somewhere around 95000 outlets and the next year, our target is to double that to anywhere between 180 and 2 lakh outlets which is really what we have focussed on. The growth rate, which we are planning to clock, is also close to 50% growth year-on-year.

Balwinder Singh: In pulses 50% and overall consumer business, this Rs.1500 Crore pie, how do you see it three years down the line?

R. Mukundan: We do not want to disclose those forward-looking numbers, but we see an improvement in demand and continuous improvement in developing the reach and penetration for the product

Balwinder Singh: Ballpark just an approximate something?

R. Mukundan: We had mentioned in five-year timeframe, we do expect consumer facing portfolio to be close to about between Rs.4000 Crore and Rs.5000 Crore odd.

Balwinder Singh: What kind of margin will this business do say it is five years down the line?

R. Mukundan: We do not give forward-looking statement. All this is dependent on the good consumer franchise continuing and the roll out of new products. What we launched after pulses, are the spices, which currently are just present in Punjab; we need to roll it out first in the northern market. Post that there is a product portfolio pipeline, which we have, which we will launch in a step-by-step manner.

Balwinder Singh: I am not looking for a guidance, but generally what can be the margin profile of this business, so there must be a target ROE, ROCE that you must have kept in mind for this?

P. K. Ghose: Actually different products have different margins, so I do not think we will be able to tell you a number.

Balwinder Singh: Okay not an issue. Thanks.

Moderator: Thank you. The next question is from the line of Abhijit Akella from India Infoline. Please go ahead.

Abhijit Akella: Good evening Sir. Thanks a lot for taking my question. First, if you could just talk a little bit about the free cash flow generation for the year. If it is possible to just give us some numbers regarding the cash flow?

PK Ghose: It is about Rs.200 Crore.

Abhijit Akella: So, this is free cash flow, is it?

R. Mukundan: Rs.200 Crore.

Abhijit Akella: If you could just define how exactly are you arriving at?

P. K. Ghose: Free cash flow would be defined as net profit plus depreciation minus capex.

Abhijit Akella: Okay fine and the capex for the year was how much sir?

P. K. Ghose: Rs.564 Crore on a consolidated basis.

Abhijit Akella: 564 Crore despite this Rs.200 Crore free cash flow generation though the net debt have gone up by Rs.300 Crore, so that would be because of?

P. K. Ghose: The net debt goes up due to various reasons, you cannot ascribe one; for instance one is an exchange impact. The second is that we took additional debt in Kenya for restructuring roughly about $19 million, but then there have been reduction in other areas and then there is the increased working capital borrowing on account of delayed subsidy disbursements.

Abhijit Akella: In terms of the roadmap that we had laid down on a quarter or two ago in terms of substantially reducing the debt?

R. Mukundan: I think we are on track for that. We had broadly said that other than working capital debt, India will be free of term loan debt. We have said that US will be able to meet its target of meeting its debt commitment in as much that they will have generate sufficient cash to meet most of their debt in the seven year timeframe when there is a bullet payment. But in US, we maybe, during the first quarter of this year and in the next quarter, paying off roughly $20 million of debt in advance. The debt positions at UK and Kenya remain the same where we said that Kenya will have roughly about $18 to $20 million left of outside debt and UK will still continue to have more than 90 to 100 million pounds of debt.

Abhijit Akella: That is really helpful Sir. Thank you. The second thing I just wanted to check with regard to this new urea policy, which you could comment on how you see it impacting our fertiliser segment or also the broader industry in terms of may be urea production in the country. The fourth quarter issues we have been facing to those go away, so from next year FY2016 we expect the fertilizer segment to remain profitable throughout the year?

R. Mukundan: The fertilizer production above cut off will be profitable through the year. The way the government has framed this policy has been that they have implemented gas-pooling which sort of makes the above cut off remunerative with certain fixed cost reimbursement and a profit reimbursement which they have assured on a per tonne basis for above cut off. So the quantity above 864,000 tonnes would now become profitable. Our production capacity is 1.25 million tonnes, so approximately 3,80,000 tonnes becomes profitable for the unit. With respect to below cut off what government has done is, it has tightened the energy norm to a level based on the average of last three years consumption which effectively means that broadly all companies would have to sacrifice some element of their profits of below cut off. While there is a positive movement on above cut off and there is a marginal reduction, which is happened on below cut off, on an overall basis,, companies would gain from the current year. The big issue during FY 15 has been the additional interest charge of almost Rs.45 to Rs.50 Crore odd, which has happened on the urea front on account of the subsidy overhang. If that is addressed then we will go back to normal profits.

Abhijit Akella: Do you see the new policy leading to any kind of increase in production in India, urea per se?

R. Mukundan: Of course, most people would produce; we were amongst the few companies that went ahead to produce extra volumes despite the lack of policy clarity but most other companies also took a decision not to produce in the last quarter. I think this new policy will now enable all companies to produce above cut off.

Abhijit Akella: Great and finally last point, I just wanted to check about with regard to the consumer business, pulses obviously is scaling up well, but at what level of revenues do you see it hitting break even, how far away could that be?

R. Mukundan: We are fairly watchful of that and I think now the business is moving towards at least breaking even in terms of generating positive EBITDA margins and overall I think the business as it scales up would start moving towards full profit.

Abhijit Akella: Is there any revenue threshold or any timeline that you have for that in mind?

R. Mukundan: This is really the second full year of operation and usually we do believe that we need to nurture our business for about three to four years.

Abhijit Akella: Also just on the spices and the other new products that you are planning to launch. So, I understand that pulse is a high volume and low margin business whereas salt is the exact opposite, where in your opinion would spices fit in, in this portfolio and also regarding the new product launches by when would you will be able to disclose some more about what you are planning to launch?

R. Mukundan: While the pulse business is a high volume and lower margin business, spices is exactly opposite being a lower volume, but higher margin business and we will constantly be toggling between the two ends when we launch the high volume, lower margin product, the next product which we have plans to launch would be higher margin, but a lower volume product.

Abhijit Akella: Finally on the nutraceuticals plant any update Sir?

R. Mukundan: Nutraceuticals plant is operational and our target is to at least break even this year, it will be its first full year of operation.

Abhijit Akella: One last thing Sir, on USA what is the total capacity we have now as it increased to $2.6 million or where it stands and can we hit full utilization in FY2016?

R. Mukundan: The capacity is still about 2.5. We are still working towards pushing it forward to 2.6, but the project ramp up is still in implementation.

Abhijit Akella: Thank you so much for the clarification.

Moderator: Thank you. The next question is from the line of Chetan Thakkar from Emkay Global. Please go ahead.

Chetan Thakkar: Good evening Sir. I just wanted the debt breakup by region if you could help me with that on the gross level?

P. K. Ghose: US has got $310 million in which I have just mentioned to you in the next two quarters they will repay $20 million, so it will come down $290 million. UK has got GBP 140 million. It includes a GBP 20 million revolver facility. Kenya has got around $60 million and most of this is for working capital.

Chetan Thakkar: This $60 million is outside debt and plus what you have spent on standalone that is separate?

P. K. Ghose: $60 million is external debt. We have given promoter funds which comprise of debt plus preference capital aggregating to about $42 million, which we have infused into the company. So when I mentioned about Magadi's repayments- it -is $18 million outside debt is what we are reducing.

Chetan Thakkar: This will be in the next two years.

P. K. Ghose: Five-year space and India of course I mentioned that other than working capital, we should be debt free in five years.

Chetan Thakkar: What is the number for India debt?

P. K. Ghose: India, I think the total position is Rs2716 crore.

Chetan Thakkar: Working capital would be?

P. K. Ghose: That is the including working capital buyer supplier's credit, it would be roughly about Rs.1000 Crore.

Chetan Thakkar: Thank you so much.

Moderator: Thank you. The next question is from the line of Neha Talreja from CRISIL. Please go ahead.

Neha Talreja: Thank you for taking my question. The question about domestic soda ash industry, can you just highlight FY2015, how was the soda ash industry been in domestic market?

R. Mukundan: Soda ash remains tight and the market is fully sold out amongst all players. India is a net import market, so our pricing is based on import parity pricing. There is also anti-dumping duty, which is there on several suppliers but the market remains robust.

Neha Talreja: How has the consumption growth been in this soda ash industry? How have our volumes moved compared to FY2014?

R. Mukundan: I think this year we had a spike in the growth rate, which was much higher than what we had anticipated, it is close to about 5% the usual normal growth rate in this business is anywhere between 3% and 4%.

Neha Talreja: Okay, this year it has been somewhere about?

R. Mukundan: I think it is 5% or 6%. It has been slightly higher demand growth because of few capacities is coming on line.

Neha Talreja: In glass segment?

R. Mukundan: In glass segment, mainly I think Saint Gobain has started its glass plant.

Neha Talreja: What about the pricing scenario? We have just seen a Rs.500/tonne increase in prices in the month of April. So, do we see the price to sustain or will it be even higher going forward?

R. Mukundan: We do not know about future price. The current price should sustain post the price increase.

Neha Talreja: Thanks a lot sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Sumant Kumar from Elara Capital. Please go ahead.

Sumant Kumar: I would like to the soda ash demand supply scenario in Europe?

R. Mukundan: In Europe, the demand supply scenario is that it remains oversupplied because of ETI production, but as of now, the overall situation is that the market is moving towards a level of balance, post the closure of the Portuguese plant and another plant is always running at a lower capacity utilization, based on what the market reports have said. So market is moving towards balance.

Sumant Kumar: How is the Chinese impact there?

R. Mukundan: The big impact there is from the Turkish operation, ETI Soda from Turkey, but ETI is fully sold out today and hence I think the market supply situation is fairly tight. They do need materials from US also. We do not see Chinese material landing there.

Sumant Kumar: That is it from my side.

Moderator: Thank you. The next question is from the line of Manali Shah from CRISIL. Please go ahead.

Manali Shah: I just wanted to know what has been the cost of production for urea last year and with this gas price pooling coming and what is expected cost of reduction this year?

R. Mukundan: It is about Rs.17000 per tonne. We do not have figure for the current year, because it is going to be a blend of gas pooling and different pricing option.

Manali Shah: This would be at what price?

R. Mukundan: We do not know the pool price, but it is closer to between $6/MMBTU and $7/MMBTU is what it will settle at depending on the LNG prices.

Manali Shah: In the new urea policy what they have announced that beyond reassessed capacity, they would be giving a variable cost plus a fixed cost, so any idea what that fixed cost?

R. Mukundan: Actually the policy should be up on the website, I do not recollect but I think it is already out.

Manali Shah: Yes it there, but the fixed cost as how much is it? That is what I wanted to know?

R. Mukundan: They have not put that I think.

Manali Shah: Thank you.

Moderator: Thank you. The next question is from the line of Rohan Gupta from Emkay Global. Please go ahead.

Rohan Gupta: My question is on these fertilizer losses probably 36 Crore on a standalone. Can you give the split between urea and complex fertiliser losses?

P. K. Ghose: Haldia Q4 was down by about Rs.27 Crore at the PBT level and urea was down by -Rs39 crore.

Rohan Gupta: This Rs.39 Crore is the loss in urea for the quarter. At EBIT level you are talking about?

P. K. Ghose: I am talking about PBT level.

Rohan Gupta: After interest also Sir, we would have been better of, if you would not have produce above cut off right?

R. Mukundan: It could be interpreted either way, but we decided to produce in good faith.

Rohan Gupta: Is that any sort of amount pending which we are yet to claim from the government or it is all settled?

R. Mukundan: We are in discussion, but we cannot recognize that in the books; what we do believe is that going forward next year these loss figures would not exist in light of the new policy.

Rohan Gupta: But in the current year, is there any amount I understand we have not recognized, but there is some sort of amount which is pending and when we recognize…

R. Mukundan: We are still under discussion with government, because some companies have produced and those are the ones, which are working with the government.

Rohan Gupta: Second on this other businesses, which are especially pulses trading and retail, so now we are almost roughly Rs.80 Crore losses on annual basis. What do you think that should be minimum topline where we should be breakeven on those other businesses?

R. Mukundan: This is a combination of several businesses including biofuels and the impairment charge which has been taken. I do not want to break that up, but all we can say that the pulse business is moving in the right direction.

Rohan Gupta: In pulses trading, the revenue, which we generate, we only take a part of the commission in our books or how it is accounted in our books?

P. K. Ghose: As a normal sales purchase.

Rohan Gupta: I have a couple of questions, I will come back in queue. Thank you.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Good evening everybody. Your earlier comments about we have been sold out in the soda ash front, could you throw some more light on, what do you meant by the term where we are sold out for that and what has been the realization levels are being up was again what we have done in this year. How was the realization moved?

R. Mukundan: When I said sold out, we have fully booked as far as orders are concerned. The demand is tight and supply I think is matching.

Saket Kapoor: How has the prices played out? Booked for forward, how are the prices playing up now?

R. Mukundan: Forward, we do not have a view, but all I can tell you is what historically has happened in the last month there was a price increase of Rs.500 affected in India. But overall every region where the new contracts were entered in December which is when the new annual contract negotiations start and are effective from January to December; the price did move up in every region.

Saket Kapoor: Primarily it is due to the shut down that has happened internationally or it is the demand push that is creating this?

R. Mukundan: There is demand growth in US and other markets; however, the shut down also has contributed positively.

Saket Kapoor: What about the Indian operations, the same thing is playing out here also?

R. Mukundan: It is a global business. The demand supply equation is fairly global.

Saket Kapoor: You have also spoken about fertiliser part wherein you have told the story of cut off, could you elaborate on the same what is the new policy, what is the cut off part, I missed earlier in the conversation?

R. Mukundan: I think the government has the energy as a pass through and pays certain fixed charge for below cut off which is 865000 tonnes for us and for the balance of 400000 tonnes odd the government gives us either IPP price which is import parity, but if the import parity falls sharply they protect the margin and that in essence is the new policy.

Saket Kapoor: For the 865000, we will be subsidized? We will have to sell it at the subsidized rate?

R. Mukundan: Entire quantity is sold at a subsidized rate, only thing is the mechanism of the calculation of what is to be given to us as subsidies is different. Up to the cut off point the government recognizes certain margin structure. Beyond that since you cover all the capital cost it then sort of derecognizes and arrives at a different formula to look at the profit margin beyond cut off.

Saket Kapoor: Then how will the differential work? When you will be selling after the cutoff quantity? Are there two markets for urea also which are subsidized part and non-subsidized and how will that quantities being absorbed into market?

R. Mukundan: All the quantities are subsidized and it is sold at a fixed government notified price and the subsidy reimbursement value varies below cut off and above cut off.

Saket Kapoor: The prices will be fixed, but the only reimbursement part of it will be different?

R. Mukundan: Yes.

Saket Kapoor: Again I will come back later. Thank you.

Moderator: Thank you. Our next question is from the line of Arjun Asher an individual investor. Please go ahead.

Arjun Asher: My question is how receptive are the grocers in stocking our i-Shakti pulses? Is there any resistance from them due to margins, which they have as compared to the unbranded products?

R. Mukundan: I think it is part of the conversion process. We have to go through this in every product for Tata Salt it has taken us 25 years to get to 67% market share so we will go through this process even for pulses.

Arjun Asher: In case of Tata Salt and in Atta you have Aashirvaad Atta where there is low penetration of branded products, there you normally see there is only one brand that is dominating the category. Why do you think that happens?

R. Mukundan: Usually the dominance is of the first one or two or three brands. After the third brand, there is no one who can. Usually in branded business it is a rule of three. The top three capture most of the market. In fact the top one takes the greatest margin, the second brand makes some money and the third one just about to level. The rest cannot survive, but I cannot say this for every market since there are fragmented markets but this is broadly been the trend internationally and even in India.

Arjun Asher: Tata Salt you have 500000 distribution points, point of sale?

R. Mukundan: Yes, 500000 outlets which we sell and we are trying to increase that further.

Arjun Asher: How long do you think pulses will also reach that market, 500000?

R. Mukundan: Right now our target is stabilized at 200000 units. We have reached close to 100000 last year. It has taken us almost two and a half years to get there, and we have set an ambitious target of at least doubling it, it may take 12 to 18 months to get there but the plan is that we should reach the distribution strength as in salt in the next three to four years.

Arjun Asher: Any new additions to the portfolio after spices which you would like to share at this moment?

R. Mukundan: No it is premature.

Arjun Asher: But whenever it comes what would be the expected launch date?

R. Mukundan: There is no fixed timetable, which we have. The way we do it is that we first scale up one product on an all India level before we test launch the next product.

Arjun Asher: Any plans to venture into milk and poultry where there are also trust issues in the minds of consumers because like Titan did it in case of gold. There were trust issues in case of gold too so through Tanishq they addressed those trust issues in the unbranded category. So any plans for milk and poultry also?

R. Mukundan: In terms of trust issue it is across the food products, we are examining the entire portfolio and I do not want to sort of preempt the choices, which the team will make.

Arjun Asher: Thanks a lot. That is it from my side.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to Mr. Subham Sinha for his closing comments. Over to you Sir!

Subham Sinha: On behalf of Tata Securities that concludes this conference. Thank you everyone for joining us.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Tata Securities Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.